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Report Highlights:

Fluid milk production is forecast to decline in 2009/10 primarily due to lower cow numbers. Production of butter and milk powders are expected to fall, while cheese production is expected to hold steady. Larger than normal carry out stocks in 2008/09 of cheese, butter and whole milk powder should allow for increases in exports in 2009/10. At the farm gate recently improved world prices will likely be blunted by a higher Australian dollar in 2009/10.

Summary:

The Australian Dairy Industry has suffered difficult production conditions. Severe drought, high input prices and falling farm gate prices for milk have squeezed milk production margins considerably. As a result cow slaughter has increased and farm numbers have declined considerably.

Despite difficult conditions generally, more recently, there have been modest improvements. Fodder prices have eased as have fertilizer prices. Rainfall has improved bringing about modest improvements in irrigation water supplies. Pasture conditions are currently looking good in most production areas. These improvements have combined to see cow slaughter decline and cow prices (in some parts of Australia) improve significantly in the first quarter of 2009/10.

The area of land affected by drought in south-eastern Australia appears to be declining. Average weather conditions going forward, combined with recent improvements, could see the Australian dairy industry make the long and steady recovery from the worst drought in recorded history.

Compared with the same period in the previous year, the first two months of the 2009/10 year have seen a sharp increase in export trade volumes, including most dairy commodities. However, a strengthening Australian dollar will likely constrain price increases and export earnings for the remainder of the forecast year. At the time of writing this report, the Australian dollar has surpassed most expectations by rising to near an historical high of US\$0.94.

The recent use of the DEIP program by the US Government has generated much debate within Australia, at all levels. Most of the local criticism to date has purported the use of this program as a step away from previous efforts to enhance trade liberalization. Generally, despite the amount of criticism, the majority of criticism has possibly been aimed at the US gaining export market share (in Australia's favored markets) at the expense of Australia through the use of the DEIP program.

Lower than previously expected trade volumes for 2008/09 and the effect that this had on ending stocks of cheese, butter and whole milk powder. The beginning of 2009/10 has seen a significant increase in export demand and post is expecting this to continue throughout 2009/10, boosting exports of these commodities at the expense of ending stocks.

Commodities:

Dairy, Milk, Fluid
Dairy, Cheese
Dairy, Butter
Dairy, Dry Whole Milk Powder
Dairy, Milk, Nonfat Dry

Dairy Cow Numbers

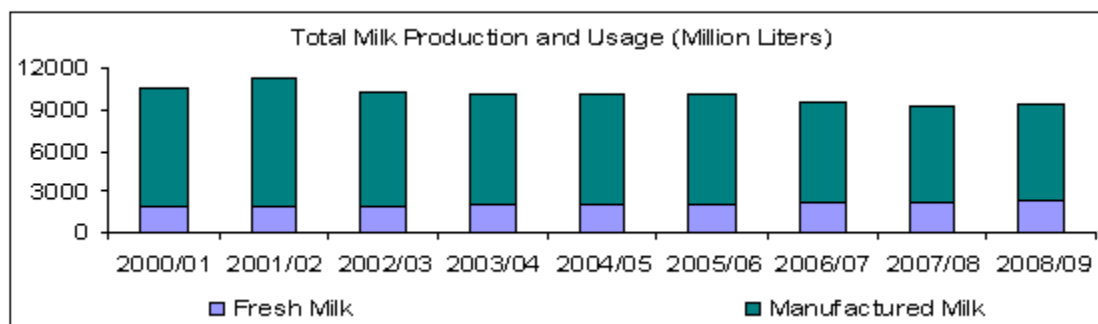
Dairy cow numbers are forecast to decline a further two percent in 2009/10 as the dairy industry continues to restructure. Dry conditions in key dairy regions, which began back in 2002/03, have persisted into the longest and most severe drought on record. Until recently, these conditions created significant fodder and irrigation water shortages which threatened the viability of the industry. Despite significant improvements in seasonal conditions in 2008/09, the Australian herd is still expected to decline in 2009/10 as the industry continues to restructure.

Although cow numbers are expected to fall in 2009/10, cow yield is expected to improve. Improved supplies of fodder and greatly improved pasture conditions are also expected to see milk production per cow increase, partially compensating for falling cow numbers.

The first four months of 2009/10 have seen cooler and, in some regions, wetter-than-average conditions. This has led to ideal conditions for dairy pasture and fodder production. Furthermore, Australia looks set to produce an historically large winter cereal crop lowering grain prices, which should provide a boost to cow yield.

Fluid Milk

Fluid milk production is forecast to fall around one percent in 2009/10 to 9.57 MMT, or around 9.29 billion liters of milk using a conversion factor of 1.03. This forecast remains slightly higher than Australian Bureau of Agricultural and Resource Economics (ABARE), who reported prior to the most recent rainfall events which occurred in the bulk of dairy production regions.

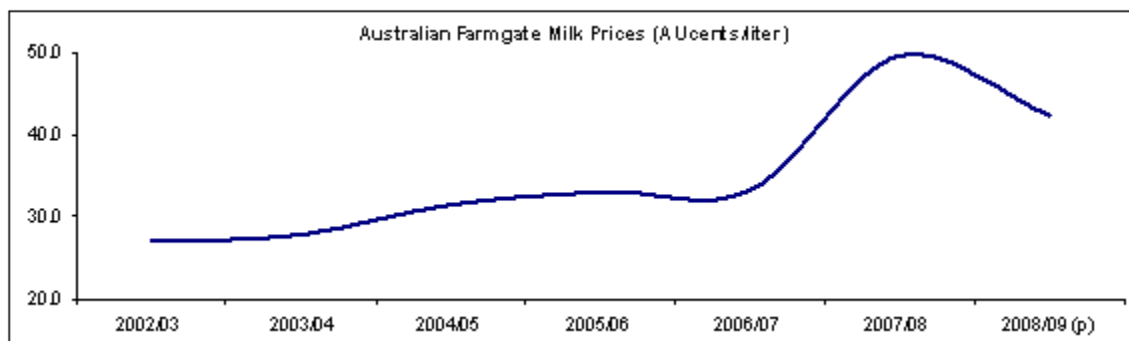


Source: ABARE Data (July-June)

The forecast decline in fluid milk supply and the projected growth in fresh milk demand are likely to see the availability of milk for manufacturing purposes decline by nearly two percent, nearly double the forecast one percent decline for total milk supply. Fluid milk sales are expected to continue to grow modestly in line with the long term trend.

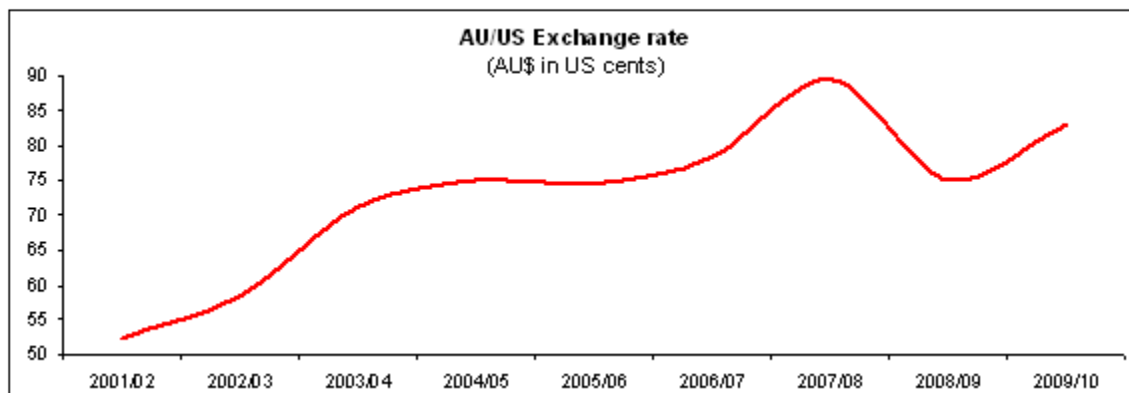
Milk Prices

Falling milk prices over the course of 2008/09 have received much media attention in Australia. Many dairy producers, who had suffered difficult production conditions, viewed a fall in dairy prices as “the final insult” in what were already difficult production conditions. However, historic data puts milk prices at the end of 2008/09 well above levels achieved in 2006/07. Furthermore, prices of key inputs such as fodder and fertilizer have also declined. In select regions there have also been some reports of small increases in farm gate milk prices.



Source: ABARE Data (July-June)

Recently, the Australian dollar has increased in value beyond previous expectations and this, going forward, is expected to place downward pressure on milk prices. While the future value of the Australian dollar remains unknown, most experts expect it to remain strong compared to the U.S. dollar for the foreseeable future.

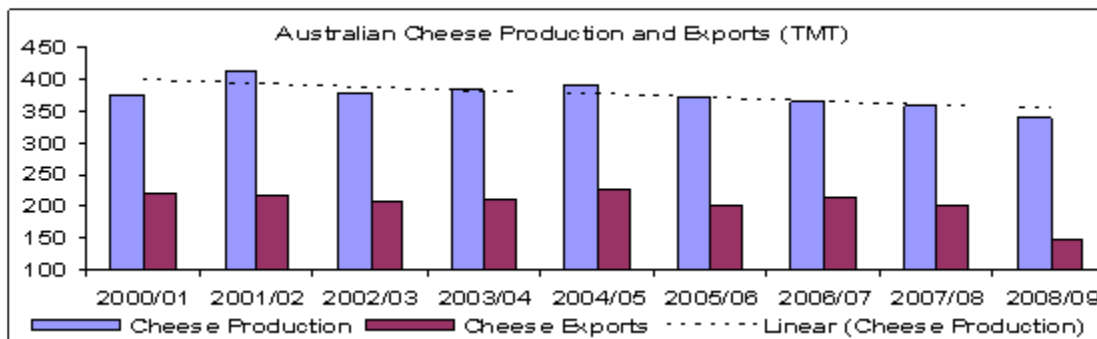


Source: ABARE Data (July-June)

Cheese

Production

Total cheese production is forecast at 325 TMT for 2009/10 which is unchanged from the estimate for the previous year, despite lower forecast fluid milk production. If achieved, production at this level would be considered to be slightly below average.



Source: ABARE Data (July-June)

Industry sources suggest that, despite falling fluid milk production expected for 2009/10, cheese production is expected to remain firm as it continues to increase its share of fluid milk, due to its higher value. Fluid milk volumes have generally trended downwards since the drought began in 2002/03.

Post has revised the production estimate for 2008/09 downwards to 325 TMT in line with recently released industry data.

Exports

Total exports of cheese are forecast at 185 TMT, up sharply on the previous year despite a relatively unchanged production forecast. Poor export demand is believed to have sharply increased for 2008/09 ending stocks. Post expects that much of that inventory will be exported in 2009/10 and will assist in boosting exports.

LOCAL NEWS

US dairy dumping hampers recovery

CY2009 saw the introduction of the US "Dairy Export Incentive program" (DEIP) to help exports of US dairy products meet prevailing world prices for dairy products and targeted markets.

Under global trade rules, the US has an annual export subsidy quota. Australia has expressed concern that in the final month of last financial year, Washington used one-third of its yearly allowance for milk powder.

At the Group of 20 summit in London in April, leaders vowed not to engage in protectionism during the global financial crisis.

The Australian federal government had hoped Australia would be spared the worst of the effects of the subsidies, and will raise the issue with at the Asia-Pacific Economic Co-operation ministers meeting in Singapore in July. Export subsidies are legal under current World Trade Organisation rules, but would be banned if the deadlocked Doha round was concluded.

Figures show that in June, the US exported 20,000 tonnes of subsidised milk powder, 1800 tonnes of subsidised butter and 150 tonnes of subsidised cheese and despite negotiations between the Australian dairy industry and the US government, about 85 per cent of the milk powder went into Australia's key South-East Asian markets. Local Australian farmers fear the move could curb any revival in dairy prices.

Source: *Financial Review* July 6, 2009

The Dairy Industry takes the cream

The Dairy International commodity prices have increased sharply during the past quarter and most products have increased by 20 to 30 per cent. Improvement in prices is due to slowing US production, lower supplies in the southern hemisphere and increasing demand. The Indicative Oceania Dairy Export prices for the week ending last Friday were between \$US2300 a tonne and \$US2650/t for butter, and between \$US2400/t and \$2750/t for skim milk powder.

However, a steadily increasing Australian dollar, which has now surpassed earlier expectations, has eroded most of the price increase of the farm gate.

Source: *The Land* - October 15, 2009

Live dairy exports boom amid price gloom with a reported 58,364 head exported in 2008 compared with 46,265 the previous year. Although, for some dairy farmers, this is lifeline to stay in the industry, a stable income plus keeping local cattle prices up, others are concerned about the impact on future milk sales and loss of progeny test information on young bulls. According to media sources, Australia has become a preferred supplier with its high-quality livestock and health status, with the state of Victoria supplying most of the dairy cattle for export - a large majority sourced from Holstein commercial herds with a production of 6000 litres or more. Russia, China, the Middle East, Mexico and Asia being the main buyers - unjoined heifers making as much as AU\$1000 a head, and mated heifers AU\$1400-\$1500. However the market was coming under increased pressure from Canada and the United States since the mad cow ban had been lifted, and Uruguay has emerged as a potential competitor.

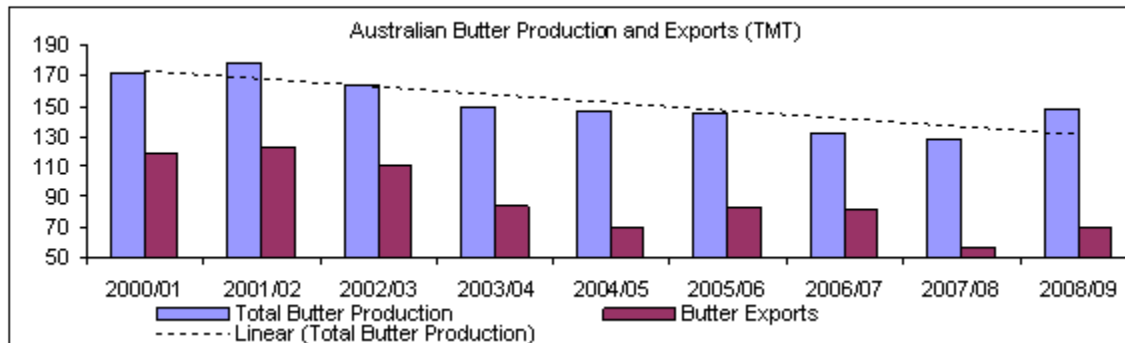
Source: *Online Stock Journal*, June 14, 2009

Butter

Production

Total production of butter for 2009/10 is forecast at 129 TMT, down around four percent on the revised estimate for the previous year. Reduced milk supply and significantly large closing inventories will likely constrain production of butter.

Post advises that long-term trends show butter production and exports to be generally in decline and post's forecast remains in line with the long term trend.



Source: ABARE Data (July-June)

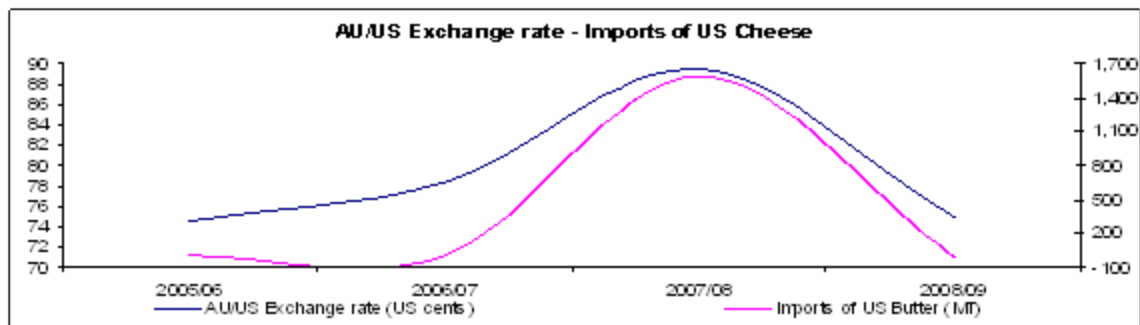
Post estimates and forecasts for butter include butter oil. Post uses a conversion factor of 1.23 to convert butter oil to a butter equivalent. In 2008/09 Australia produced a total of 31,187 MT of butter oil which post has converted to 38,360 MT of butter equivalent and this, combined with 93,591 of butter, has caused post to revise total butter production for 2009/10 upwards to 133,952 MT (or 134 TMT).

Exports

Total exports of butter are forecast for 2009/10 to increase to 75 TMT. Higher production and reduced export demand in 2008/09 created historically high inventories which post expects to be exported during 2009/10. Post has assumed that increases in demand experienced in the first two months of 2009/10 will continue through the remainder of the year and allow stocks to be exported.

Imports

Official trade figures for CY 2008 show Australia receiving 1,588 MT of butter from the US. Industry sources advise that these imports were driven by the valuation of the Australian dollar and favorable market conditions within the US. More recent statistics show that this trade has now ceased. Industry sources do not believe it likely that Australia will import butter from the US in the foreseeable future.



Source: ABARE and World Trade Atlas data

Whole Milk Powder

Production

Total whole milk powder (WMP) production for 2009/10 is forecast at 140 TMT, down around five percent on the previous year. The forecast decline in the supply of fluid milk together with the comparatively high production levels of cheese is expected to see production of WMP decline in 2009/10.

Post has revised the WMP production number for 2008/09 upwards slightly to 148 TMT in line with recent industry reports.

Exports

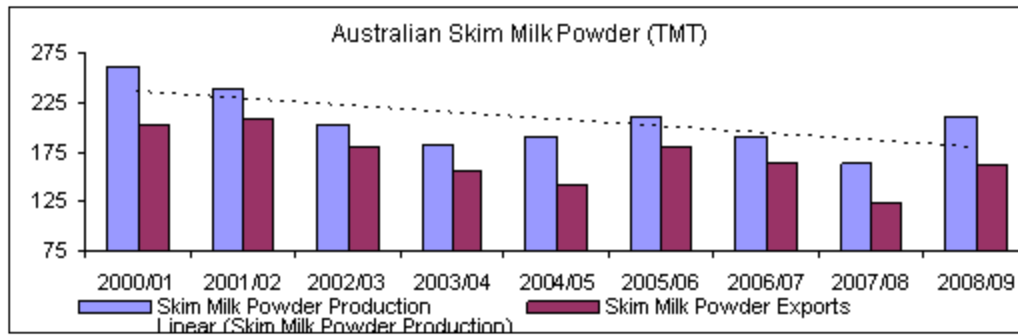
Total WMP exports for 2009/10 are forecast at 130 TMT, down more than ten percent on the previous year. High export levels in 2008/09 caused low carryout stocks and this, combined with lower production, is expected to place downward pressure on exports in 2009/10.

Skim Milk Powder

Production

Total skim milk powder (SMP) production is expected to fall to 210 TMT, down eight percent on the previous year and in-line with the long term decline shown by historical data. A lower supply of fluid milk is likely to see SMP production decline in 2009/10.

Post includes buttermilk powder (BMP) in SMP forecasts. Industry statistics show that in 2008/09 Australia manufactured a total of 15,410 MT of BMP compared with 212,030 MT of SMP. Post has revised the total SMP production number for 2008/09 upwards to 227 TMT.



Source: ABARE and World Trade Atlas data

Exports

Post forecasts exports of SMP for 2009/10 to decrease around five percent on the previous year to 170 TMT. Higher than expected production in 2008/09 has created increased stocks which post expects will be exported in 2009/10.

Cheese - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	New Post Estimate
Beginning Stocks	18	17	18	15	15	10			43
Production	344	335	344	335	350	325			325
Other Imports	70	55	65	55	70	68			68
Total Imports	70	55	65	55	70	68			68
Total Supply	432	407	427	405	435	403			436
Other Exports	202	177	202	177	206	145			185
Total Exports	202	177	202	177	206	145			185
Human Dom. Consumption	215	215	215	215	215	215			215
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	215	215	215	215	215	215			215
Total Use	417	392	417	392	421	360			400
Ending Stocks	15	15	10	13	14	43			36
Total Distribution	432	407	427	405	435	403			436
CY Imp. from U.S.	7	6	1	6	5	7			6
CY. Exp. to U.S.	9	9	12	9	14	5			4

Dairy, Butter - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	4	22	4	18	14	11			30
Production	111	118	111	118	113	134			129
Other Imports	20	15	14	15	16	19			20
Total Imports	20	15	14	15	16	19			20
Total Supply	135	155	129	151	143	164			179
Other Exports	59	70	54	70	61	66			75
Total Exports	59	70	54	70	61	66			75
Domestic Consumption	58	64	64	60	68	68			68
Total Use	117	134	118	130	129	134			143
Ending Stocks	18	21	11	21	14	30			36
Total Distribution	135	155	129	151	143	164			179
CY Imp. from U.S.	2	2	2	2	1	2			0
CY. Exp. to U.S.	3	3	3	3	2	3			4

Dairy, Dry Whole Milk Powder - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	23	51	23	40	21	26			11
Production	142	145	142	145	128	148			140
Other Imports	13	10	13	10	14	14			15
Total Imports	13	10	13	10	14	14			15
Total Supply	178	206	178	195	163	188			166
Other Exports	111	150	125	150	113	150			130
Total Exports	111	150	125	150	113	150			130
Human Dom. Consumption	27	29	27	29	30	27			27
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	27	29	27	29	30	27			27
Total Use	138	179	152	179	143	177			157
Ending Stocks	40	27	26	16	20	11			9
Total Distribution	178	206	178	195	163	188			166
CY Imp. from U.S.	1	1		1	1				
CY. Exp. to U.S.	3	3		1	1				

Dairy, Milk , Nonfat Dry - Australia									
1,000 MT	2008			2009			2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	New Post Estimate
Beginning Stocks	30	46	30	46	45	42			62
Production	177	200	177	200	181	227			210
Other Imports	4	3	4	3	3	4			4
Total Imports	4	3	4	3	3	4			4
Total Supply	211	249	211	249	229	273			276
Other Exports	120	170	120	170	123	162			170
Total Exports	120	170	120	170	123	162			170
Human Dom. Consumption	45	45	49	45	49	49			49
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	45	45	49	45	49	49			49
Total Use	165	215	169	215	172	211			219
Ending Stocks	46	34	42	34	57	62			57
Total Distribution	211	249	211	249	229	273			276
CY Imp. from U.S.	0	0	0	0	0	0			
CY. Exp. to U.S.	0	0	0	0	0	0			

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The reports listed below can all be downloaded from the FAS website at: <http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>.

Report Number	Title of Report	Date
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AS9035	Sugar Semi-Annual 2009	09/30/09
AS9033	FAIRS Export Certificate Report	09/02/09
AS9032	Livestock and Products Annual	09/01/09
AS9031	Exporter Guide	08/31/09
AS9030	U.S. Distillers Grains Promoted at Australian Grains Conference	08/18/09
AS9029	Grain and Feed Quarterly Lock-up Report	07/31/09
AS9028	FAIRS Country Report	07/27/09
AS9027	Agricultural Biotechnology Report	06/14/09